

MSINGA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2012

In terms of section 126 (1) of the Municipal Finance Management Act ,
I am responsible for the annual financial statements, which are set out on
pages 5 to 39, and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed
in note 16 of these annual financial statements are within the upper limits of
the framework envisaged in Section 219 of the Constitution, read with the
Remuneration of Public Officer Bearers Act and the Minister of Provincial and
Local Government's determination in accordance with this Act.

MUNICIPAL MANAGER

31 August 2012
Date

Annual Financial Statements

for

Msinga Municipality

for the PERIOD ended 30 JUNE : 2012

Province:

KwaZulu Natal

AFS rounding:

R (i.e. only cents)

Contact Information:

Name of Municipal Manager:

Name of Chief Financial Officer:

JS Pansegrouw

Contact telephone number:

033-4930761

Contact e-mail address:

Kosie.pansegrouw@msinga.org

Name of contact at provincial treasury:

Leneo Mofaka

Contact telephone number:

033-8974423

Contact e-mail address:

Leneo.mofaka@treasury.gov.za

Name of relevant Auditor:

Auditor-General South Africa

Contact telephone number:

033-2647400

Contact e-mail address:

johnnys@agsa.co.za

Name of contact at National Treasury:

Unathi Ndobeni

Contact telephone number:

012-3155103

Contact e-mail address:

Unathi.ndobeni@treasury.gov.za

Msinga Municipality
Financial Statements
for the year ended 30 June 2012
General information

Members of the Council

FJ Sikhakane
SG Masimula
TL Kunene

Mayor
Honourable Speaker
Deputy Mayor

B Mthethwa
RN Ngubane
MPS Mshibe
JM Ntuli
B Dumakude

Member of the Executive Committee
Member of the Executive Committee
Member of the Executive Committee
Member of the Executive Committee
Member of the Executive Committee

Municipal Manager

FB Sithole

Chief Financial Officer

JS Pansegrouw

Grading of Local Authority

Grade 2

Auditors

Auditor-General South Africa

Bankers

ABSA Bank

Effective 1st July 2001

Msinga Municipality
Financial Statements
for the year ended 30 June 2012

General information (continued)

Registered Office: Tugela Ferry

Physical address: Main Road
Tugela Ferry

Postal address: Private Bag X530
Tugela Ferry
3010

Telephone number: 033-4930761

Fax number: 033-4930766

E-mail address: fanozi.sithole@msinga.org

Msinga Municipality
FINANCIAL STATEMENTS
For the year ended 30 June 2012

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MSINGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION

as at 30 June 2012

| | <u>Note</u> | <u>2012</u> <u>R</u> | <u>2011</u> <u>R</u> |
|--|-------------|-------------------------|-------------------------|
| ASSETS | | | |
| Current assets | | 78 471 364 | 68 142 868 |
| Cash and cash equivalents | 1 | 76 032 161 | 63 588 202 |
| Trade receivables from exchange transactions | 2 | 106 435 | 109 544 |
| Other receivables from non-exchange transactions | 3 | 50 667 | 50 667 |
| Pre-paid expenditure | 4 | 33 267 | 33 267 |
| VAT receivable | 5 | 2 248 834 | 4 361 188 |
| Non-current assets | | 86 247 850 | 68 778 024 |
| Property, plant and equipment | 6 | 86 247 850 | 68 778 024 |
| Total assets | | <u>164 719 214</u> | <u>136 920 892</u> |
| LIABILITIES | | | |
| Current liabilities | | 32 054 060 | 30 834 864 |
| Trade and other payables | 7 | 3 793 522 | 4 308 621 |
| Unspent conditional grants and receipts | 8 | 28 260 538 | 26 526 243 |
| Total liabilities | | <u>32 054 060</u> | <u>30 834 864</u> |
| Net assets | | <u>132 665 154</u> | <u>106 086 028</u> |
| NET ASSETS | | | |
| | | 132 665 154 | 106 086 028 |
| Accumulated surplus | 9 | 132 665 154 | 106 086 028 |
| Total net assets | | <u>132 665 154</u> | <u>106 086 028</u> |

MSINGA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
as at 30 June 2012

| REVENUE | <u>NOTE</u> | <u>2012</u> | <u>2011</u> |
|---|--------------------|--------------------|--------------------|
| Property rates | 11 | 441 045 | 441 045 |
| Property rates - penalties imposed and collection charges | | | |
| Service charges | 12 | 20 941 | 20 940 |
| Rental of facilities and equipment | | 266 534 | 277 097 |
| Interest earned - external investments | 14 | 3 594 158 | 3 747 680 |
| Government grants and subsidies | 13 | 94 479 922 | 85 264 274 |
| Other income | | 399 153 | 154 927 |
| Gain on disposal of property, plant and equipment | | | |
| Total Revenue | | 99 201 753 | 89 905 963 |
| EXPENDITURE | | | |
| Employee related costs | 15 | 12 590 937 | 10 236 348 |
| Remuneration of Councillors | 16 | 7 525 425 | 6 467 130 |
| Bad debts | 2,4 | 467 605 | 454 056 |
| Collection costs | | | |
| Depreciation | 6 | 8 229 569 | 6 267 910 |
| Repairs and maintenance | | 8 426 157 | 4 295 596 |
| Contracted services | 19 | 1 393 758 | 1 728 765 |
| Grants and subsidies paid | 17 | 4 980 529 | 4 856 172 |
| General expenses | 18 | 29 008 648 | 33 796 960 |
| Loss on disposal of property, plant and equipment | | | |
| Total Expenditure | | 72 622 628 | 68 102 937 |
| Surplus (Deficit) for the year | | 26 579 125 | 21 803 026 |
| Surplus (Deficit) for the year | | 26 579 125 | 21 803 026 |
| Refer to Appendix E .1 for explanation of variances | | | |

MSINGA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NETT ASSETS
as at 30 June 2012

| | Accumulated Surplus | Total |
|-------------------------|------------------------|--------------------|
| | R | R |
| Balance at 30 June 2011 | 106 086 028 | 106 086 028 |
| Surplus for the year | 26 579 126 | 26 579 126 |
| Balance at 30 June 2012 | <u>132 665 154</u> | <u>132 665 154</u> |

MSINGA LOCAL MUNICIPALITY
CASH FLOW STATEMENT
for the year ended 30 June 2012

| | <u>Note</u> | <u>2012</u> <u>R</u> | <u>2011</u> <u>R</u> |
|--|-------------|-------------------------|-------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash receipts from consumers and government | | 98 993 456 | 84 914 007 |
| Cash paid to suppliers and employees | | (64 440 556) | (71 820 940) |
| Cash generated from operations | 20 | 34 552 900 | 13 093 067 |
| Interest received | 14 | 3 594 158 | 3 747 680 |
| Net cash flows from operating activities | | <u>38 147 058</u> | <u>16 840 747</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | (25 703 099) | (19 868 435) |
| Purchase of intangible assets | | | |
| Proceeds from sale of fixed assets | | | |
| Net cash flows from investing activities | | <u>(25 703 099)</u> | <u>(19 868 435)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New loans raised (repaid) | | | |
| Increase (decrease) in consumer deposits | | | |
| Increase (decrease) in short term loans | | | |
| Net cash flows from financing activities | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | <u>12 443 959</u> | <u>(3 027 688)</u> |
| Net increase / (decrease) in net cash and cash equivalents | | 12 443 959 | (3 027 688) |
| Net cash and cash equivalents at beginning of period | | 63 588 202 | 66 615 890 |
| Net cash and cash equivalents at end of period | 1 | <u>76 032 161</u> | <u>63 588 202</u> |

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009. The application of these transitional provisions is detailed in each policy to which the Directive applies.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting

GRAP 21 Impairment of Non-Cash Generating assets

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

GRAP 24 Presentation of Budget Information in Financial Statements

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

GRAP 26 Impairment of Cash Generating Assets

GRAP 103 Heritage Assets

GRAP 104 Financial Instruments

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19 Employee Benefits

IFRIC 17 Distribution of Non-cash Assets to Owners

IFRIC 18 Transfer of Assets from Customers

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 SUBSEQUENT MEASUREMENT -REVALUATION MODEL (LAND, BUILDINGS, and other Infrastructure assets)

Subsequent to initial recognition, land, buildings, and other infrastructure assets are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| Infrastructure | | Other | |
|-------------------------|-------|------------------------|----|
| Roads and Paving | 10-20 | Buildings | 30 |
| Pedestrian Malls | 30 | Air Conditioners | 7 |
| Electricity | 25 | Vehicles and tractors | 7 |
| Water | 20 | Office equipment | 5 |
| Sewerage | 20 | Furniture and fittings | 10 |
| Community | | Machinery and Equipm | 7 |
| Buildings | 30 | Tools | 5 |
| Recreational Facilities | 10 | Radio | 5 |
| | | Computer equipment | 3 |

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3 INVESTMENT PROPERTY

3.1 INITIAL RECOGNITION

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

3.2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated.

4 INVENTORIES

4.1 INITIAL RECOGNITION

The Municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009. Inventories have therefore not measured in accordance with GRAP 12 or the accounting policy. A "provisional" amount has been determined by management, which will be used until the GRAP 12 measurement process is completed. It is anticipated that this process will be complete by June 30, 2010.

Inventories comprise current assets held for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

4.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

In general, the basis of allocating cost to inventory items is the first-in, first-out method

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

5.3 INVESTMENTS

Investments, which include short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.4 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

5.5 TRADE PAYABLES AND BORROWINGS

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

5.6 CASH AND CASH EQUIVALENTS

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

6 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

7 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

8 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

10 LEASES

10.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

10.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

11 REVENUE

11.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on normal consumption.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

Revenue from the recovery of unauthorised fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

11.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

13 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

14 CONSTRUCTION CONTRACTS AND RECEIVABLES

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

Msinga Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2012

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

14 IMPAIRMENT OF ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

To the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

2012

2011

1

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Cash on hand

Cash at bank

Call deposits

11 824 897

2 659 431

64 207 263

60 928 771

76 032 160

63 588 202

The Municipality has the following bank accounts:

Current account (Primary bank account)

Absa Bank - Newcastle Branch

Account number - 4053635886

Cash book balance at beginning of year

Cash book balance at end of year

Bank statement balance at beginning of year

Bank statement balance at end of year

Bank statement balance at end of year

2 659 431

9 122 418

11 824 897

2 659 431

8 849 954

11 005 466

18 874 136

8 849 954

2

Trade receivables from exchange transactions

Gross Balance

Provision for doubtful debts

Net balance

Balances at 30 June 2012

Service debtors

Rates

Electricity

Other

Total

6 831 436

6 831 436

0

272 847

166 412

106 435

7 104 283

6 997 848

106 435

Balances at 30 June 2011

Service debtors

Rates

Electricity

Other

Total

6 391 971

6 391 971

0

247 816

138 272

109 544

6 639 787

6 530 243

109 544

Rates: Ageing

Curent (0 - 30 days)

31 - 60 days

61 to 90 days

91 - 120 days

121 days and over

Total

36 754

36 754

36 754

36 653

6 684 521

6 831 436

36 754

36 690

36 312

36 182

6 246 033

6 391 971

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|----------------|----------------|
| Electricity and other : Ageing | | |
| Curent (0 - 30 days) | (48 423) | (43 341) |
| 31 - 60 days | 2 669 | 2 571 |
| 61 to 90 days | 2 669 | 2 225 |
| 91 - 120 days | 2 602 | 2 151 |
| 121 days and over | 313 329 | 284 210 |
| Total | <u>272 846</u> | <u>247 816</u> |

Summary of debtors by customer classification

| | Domestic and other Consumers | Industrial / Commercial | Government |
|--------------------------|------------------------------------|----------------------------|------------------|
| Balances at 30 June 2012 | | | |
| Curent (0 - 30 days) | (43 994) | | 32 325 |
| 31 - 60 days | 7 098 | | 32 325 |
| 61 to 90 days | 7 098 | | 32 325 |
| 91 - 120 days | 6 930 | | 32 325 |
| 121 days and over | 1 008 354 | | 5 989 496 |
| Total | <u>985 486</u> | | <u>6 118 796</u> |

| | Domestic and other Consumers | Industrial / Commercial | Government |
|--------------------------|------------------------------------|----------------------------|------------------|
| Balances at 30 June 2011 | | | |
| Curent (0 - 30 days) | (38 913) | | 32 325 |
| 31 - 60 days | 6 936 | | 32 325 |
| 61 to 90 days | 6 213 | | 32 325 |
| 91 - 120 days | 6 008 | | 32 325 |
| 121 days and over | 928 647 | | 5 601 596 |
| Total | <u>908 891</u> | | <u>5 730 896</u> |

3 Other receivables from non - exchange transactions

| | | |
|-------------------------|---------------|---------------|
| Other | 50 667 | 50 667 |
| Total other receivables | <u>50 667</u> | <u>50 667</u> |

4 Long Term Receivables

| | | |
|--|---------------|---------------|
| Pre-paid expenses | 33 267 | 33 267 |
| Sundry loans | 972 193 | 972 193 |
| Provision Bad Debts | (972 193) | (972 193) |
| | <u>33 267</u> | <u>33 267</u> |
| Less: Current portion transferred to current receivables | (33 267) | (33 267) |
| | <u>0</u> | <u>0</u> |

Sundry Loans

This interest free loan refers to grants paid by Central Government to the District Municipality on behalf of Msinga Municipality as well as amounts due by Uthekela Water (Pty) Ltd.

There is no fixed repayment period. Payments made by the District Municipality on behalf of Msinga are set off against the District Municipality loan.

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|----------------|------------------|------------------|
| 5 VAT | | |
| VAT receivable | 2 248 834 | 4 361 188 |
| | <u>2 248 834</u> | <u>4 361 188</u> |

VAT is payable on the receipts basis

6 Property, Plant and Equipment

Reconciliation of carrying value

| | Land and buildings | Infrastr- ucture | Community | Other | Total |
|---------------------------------------|-----------------------|---------------------|-----------|--------------|--------------|
| Carrying value at 1 July 2011 | 13 921 655 | 63 106 766 | 0 | 5 350 128 | 82 378 549 |
| Cost | 16 977 727 | 62 746 477 | 4 622 | 15 751 582 | 95 480 408 |
| Revaluation | | | | | |
| Accumulated depreciation | | | | | |
| - Cost | (2 628 312) | (13 234 462) | (4 622) | (10 834 988) | (26 702 384) |
| - Revaluation | | | | | |
| Acquisitions | 141 379 | 22 348 542 | 1 381 705 | 1 831 473 | 25 703 099 |
| Transfer | 280 256 | (2 526 809) | 2 243 957 | 2 596 | 0 |
| Capital under construction | | | | | |
| Increases (decreases) in revaluation | | | | | |
| Depreciation | | | | | |
| - transfer | 51 290 | 123 419 | (114 296) | (64 119) | (3 706) |
| - based on cost | (607 473) | (6 136 911) | (240 022) | (1 245 162) | (8 229 568) |
| - based on revaluation | | | | | |
| Carrying value of disposals | | | | | |
| Cost/revaluation | | | | | |
| Accumulated depreciation | | | | | |
| Carrying value at 30 June 2012 | 14 214 867 | 63 320 256 | 3 271 344 | 5 441 382 | 86 247 849 |
| Cost | 17 399 362 | 82 568 210 | 3 630 284 | 17 585 651 | 121 183 507 |
| Revaluation | | | | | |
| Accumulated depreciation | | | | | |
| - Cost | (3 184 495) | (19 247 954) | (358 940) | (12 144 269) | (34 935 658) |
| - Revaluation | | | | | |
| Reconciliation of carrying value | | | | | |
| | Land and buildings | Infrastr- ucture | Community | Other | Total |
| Carrying value at 1 July 2010 | 14 777 175 | 35 917 264 | 0 | 4 483 060 | 55 177 499 |
| Cost | 16 805 000 | 44 663 029 | 4 622 | 14 139 322 | 75 611 973 |
| Revaluation | | | | | |
| Accumulated depreciation | | | | | |
| - Cost | (2 027 825) | (8 745 765) | (4 622) | (9 656 262) | (20 434 474) |
| - Revaluation | | | | | |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | | | | | |
|---------------------------------------|-------------|--------------|---------|--------------|--------------|
| Acquisitions | 172 727 | 18 083 448 | | 1 612 260 | 19 868 435 |
| Capital under construction | | | | | |
| Increases (decreases) in revaluation | | | | | |
| Depreciation | | | | | |
| - based on cost | (600 487) | (4 488 697) | | (1 178 726) | (6 267 910) |
| - based on revaluation | | | | | |
| Carrying value of disposals | | | | | |
| Cost/revaluation | | | | | |
| Accumulated depreciation | | | | | |
| Carrying value at 30 June 2011 | 14 349 415 | 49 512 015 | 0 | 4 916 594 | 68 778 024 |
| Cost | 16 977 727 | 62 746 477 | 4 622 | 15 751 582 | 95 480 408 |
| Revaluation | | | | | |
| Accumulated depreciation | | | | | |
| - Cost | (2 628 312) | (13 234 462) | (4 622) | (10 834 988) | (26 702 384) |
| - Revaluation | | | | | |

Refer to Appendix B for more detail on property, plant and equipment

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| 7 Trade and other payables | | |
| Trade creditors | 3 281 207 | 2 915 914 |
| Payments received in advance | | |
| Retention | | 1 049 793 |
| Staff leave | 497 553 | 284 700 |
| Deposits other | 670 | 670 |
| VAT | 14 092 | 57 544 |
| | <u>3 793 522</u> | <u>4 308 621</u> |
| 8 Unspent Conditional Grants and Receipts | | |
| 3.1 Conditional grants from other spheres of government(see note 20) | 28 260 538 | 26 526 243 |
| 3.2 Other conditional receipts | | |
| Public contributions | | |
| Total conditional grants and receipts | <u>28 260 538</u> | <u>26 526 243</u> |

Refer Appendix F

These amounts are invested in a ring - fenced investment until utilised.

9 ACCUMULATED SURPLUS

The following internal reserves are ring fenced within the Accumulated Surplus :

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Government Grant Reserve | | |
| Balance at 30 June 2011 | 66 390 845 | 54 245 373 |
| Capital grants used to finance Property, Plant and Equipment | 23 745 185 | 18 221 182 |
| Offsetting of Depreciation | <u>(7 808 661)</u> | <u>(6 075 710)</u> |
| Balance at 30 June 2012 | <u>82 327 369</u> | <u>66 390 845</u> |
| | | |
| 10 Call Investment Deposit | | |
| Other deposits | <u>64 207 263</u> | <u>60 928 771</u> |
| | | |
| 11 Property Rates | | |
| Actual | | |
| Residential | | |
| Commercial | | |
| State | | |
| Other | 441 045 | 441 045 |
| Total assessment rates | <u>441 045</u> | <u>441 045</u> |
| | | |
| Valuations | | |
| Residential | | |
| Commercial | | |
| State | | |
| Municipal | | |
| Other | | |
| Total property valuations | <u>0</u> | <u>0</u> |
| | | |
| 12 Service Charges | | |
| Refuse removal | 20 941 | 20 940 |
| | <u>20 941</u> | <u>20 940</u> |
| | | |
| 13 Government Grants and Subsidies | | |
| Equitable share | 58 981 000 | 46 328 262 |
| Skills levy | 29 917 | 23 540 |
| Conditional grants utilised to finance property, plant and equipment | 23 745 185 | 18 221 182 |
| Conditional grants utilised to finance operating expenses | <u>11 325 510</u> | <u>20 691 290</u> |
| | <u>94 081 612</u> | <u>85 264 274</u> |
| | | |
| Refer Appendix F | | |
| | | |
| 14 Interest | | |
| Investment income | 3 278 492 | 3 435 298 |
| Interest on current account | <u>315 666</u> | <u>312 382</u> |
| | <u>3 594 158</u> | <u>3 747 680</u> |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| 15 Employee Related Costs | | |
| Employee related costs - salaries and wages | 9 757 257 | 7 894 770 |
| Employee related costs - contributions to UIF, pension and medical costs | 1 033 292 | 869 842 |
| Travel, vehicle, accommodation, subsistence and other allowances | 759 217 | 658 349 |
| Housing benefits and allowances | 6 087 | 463 |
| Overtime payments | 230 683 | 155 175 |
| Performance bonus | | |
| Annual Bonus | 804 401 | 659 749 |
| Sub-total | 12 590 937 | 10 238 348 |
| Less: Employee costs allocated to Property, Plant and Equipment | | |
| Less: Employee costs included in other expenses | | |
| Total employee related costs | 12 590 937 | 10 238 348 |
| There were no advances to employees. Loans to employees are set out in note 13. | | |

| | | |
|---|-----------|---------|
| Remuneration of the Municipal Manager | | |
| Annual remuneration | 634 794 | 550 493 |
| Performance bonus | 253 227 | |
| Car allowance | 120 000 | 120 000 |
| Contributions to Medical, Pension and UIF Funds | 41 040 | 41 040 |
| | 1 049 061 | 711 533 |

| | | |
|---|---------|---------|
| Remuneration of the Chief Financial Officer | | |
| Annual remuneration | 723 630 | 644 868 |
| Performance bonus | | |
| Car allowance | | |

Remuneration of other
managers

2012

| | Corporate Services | Engineering Services | Director Develop/plan |
|---------------------|-----------------------|-------------------------|--------------------------|
| Annual remuneration | 375 128 | 351 980 | 400 499 |
| Performance bonus | 9 482 | 234 498 | 317 497 |
| Car allowance | 84 000 | 72 000 | 52 800 |
| | 468 610 | 658 478 | 770 796 |

2011

| | Corporate Services | Engineering Services | Director Development |
|---------------------|-----------------------|-------------------------|-------------------------|
| Annual remuneration | 353 627 | 331 806 | 377 544 |
| Performance bonus | | | |
| Car allowance | 84 000 | 72 000 | 52 800 |
| | 437 627 | 403 806 | 430 344 |

16 Remuneration of Councillors

| | | |
|-----------------------------|-----------|-----------|
| Mayor | 326 869 | 311 304 |
| Deputy Mayor | 263 845 | 247 524 |
| Speaker | 263 845 | 247 524 |
| Executive committee members | 1 750 263 | 1 138 620 |
| Councillors | 4 920 603 | 4 522 158 |
| | 7 525 425 | 6 467 130 |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

In - kind benefits

The Mayor and the Speaker are provided with an office and secretarial support at the cost of Council.

The Mayor has use of a Council owned vehicle for official duties

| | <u>2012</u> | <u>2011</u> |
|------------------------------|-----------------|-----------------|
| 17 Grants and Subsidies Paid | | |
| ESCOM power lines | | (19 694) |
| Department of education | | 228 723 |
| Free basic services | 4 980 529 | 4 647 144 |
| | <hr/> 4 980 529 | <hr/> 4 856 173 |
| 18 General Expenses | | |
| Advertising | 252 271 | 417 223 |
| Audit fees | 408 436 | 635 075 |
| Audit: internal | 749 831 | 374 000 |
| Admin fees | 38 745 | 55 607 |
| Bank charges | 233 361 | 222 739 |
| Awareness programme | 1 454 569 | 1 126 659 |
| Conference and seminars | 87 436 | 118 775 |
| Aids awareness | 93 048 | 85 874 |
| Disaster management | 85 992 | 68 143 |
| Electricity | 341 723 | 330 597 |
| Entertainment | 167 110 | 108 905 |
| Insurance | 441 250 | 368 517 |
| Indigent support | 108 395 | 101 429 |
| Legal fees | 32 399 | 52 610 |
| Licences | 71 598 | 86 806 |
| Emergency fund | 1 403 450 | 1 319 689 |
| Materials | 23 005 | 24 114 |
| Meetings/training | 274 423 | 138 372 |
| Pauper burials | 185 792 | 191 060 |
| Printing & stationary | 465 136 | 341 027 |
| Rent: offices | 198 840 | 74 518 |
| Security services | 1 447 533 | 852 881 |
| Special projects | 1 705 934 | 2 570 214 |
| Youth projects | 1 220 864 | 1 059 844 |
| Sport and recreation | 422 418 | 335 405 |
| Subsistence & travelling | 1 448 277 | 972 888 |
| Subscriptions | 123 755 | 18 500 |
| Sundries | 30 478 | 7 645 |
| Ploughing cost | 520 430 | 219 971 |
| Telephones | 626 127 | 692 221 |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| Agricultural project | 229 163 | 352 047 |
| Transport/vehicle cost | 3 241 016 | 2 044 515 |
| Valuation expenses | 63 158 | 342 806 |
| Ward committees | 40 564 | 53 014 |
| Water | 93 057 | 30 973 |
| CDW expenses | 24 405 | |
| Kwalatha housing expenses | | 347 287 |
| Msig expenses | 245 751 | 215 862 |
| Town establishment expenses | | 389 025 |
| Idp expenses | 21 930 | 1 335 |
| Fmg expenses | 713 235 | 405 761 |
| Rural elec plan | 7 992 180 | 3 212 753 |
| Tourism project | 14 871 | |
| Internal audit grant expenditure | 128 198 | |
| E-learning project expenses | | 15 053 |
| Map expenses | 391 877 | 247 531 |
| Small town rehab | 453 735 | 8 996 280 |
| Disaster fund housing | | 976 170 |
| T/ferry street lighting | 275 784 | 1 970 947 |
| Pomeroy street paving | 25 850 | 1 149 064 |
| LED capacity building | 178 396 | |
| Contribution leave provision | 212 853 | 75 228 |
| | <u>29 008 649</u> | <u>33 796 956</u> |
| 19 Contracted Services | | |
| Management services | 1 339 492 | 1 640 876 |
| Professional fees | 54 265 | 87 888 |
| | <u>1 393 757</u> | <u>1 728 764</u> |
| 20 Cash Generated by Operations | | |
| Surplus (deficit) for the year | 26 579 125 | 21 803 027 |
| Adjustment for : | | |
| Prior year | 3 708 | |
| Depreciation | 8 229 566 | 6 267 910 |
| Gain on disposal of property, plant and equipment | | |
| Contributions to provisions- non-current | | |
| Contributions to provisions - current | | |
| Contributions to bad debt provision | 467 605 | 454 056 |
| Investment income | (3 594 158) | (3 747 680) |
| Interest paid | | |
| Operating surplus before working capital changes | 31 685 846 | 24 777 313 |
| (Increase) decrease in consumer debtors | (464 496) | (447 758) |
| (Increase) decrease in other debtors | | 349 064 |
| Increase (decrease) in conditional grants and receipts | 1 734 295 | (12 696 899) |
| Increase (decrease) in creditors | (515 099) | 2 253 653 |
| (Increase) decrease in current portion of long term debtors | | |
| Increase (decrease) in VAT | 2 112 354 | (1 142 307) |
| Increase (decrease) in provisions | | |
| | <u>34 552 900</u> | <u>13 093 066</u> |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| 21 Cash and Cash Equivalents | | |
| Cash and cash equivalents included in the cash flow statement comprise the following amounts: | | |
| Bank balances and cash | 11 824 897 | 2 659 431 |
| Call deposits | 64 207 263 | 60 928 771 |
| | <u>76 032 160</u> | <u>63 588 202</u> |
| 22 Additional Disclosures in Terms of Municipal Finance Management Act | | |
| 22.1 Contributions to organised local government | | |
| Opening balance | | |
| Council contributions | | |
| Amount paid - current year | | |
| Amount paid - previous years | | |
| Balance unpaid (included in creditors) | <u>0</u> | <u>0</u> |
| 22.2 Audit fees | | |
| Opening balance | | |
| Current year audit fee | 408 436 | 635 075 |
| Amount paid current year | 408 436 | 635 075 |
| Amount paid - previous years | | |
| Balance unpaid (included in creditors) | <u>0</u> | <u>0</u> |
| 22.3 VAT | | |
| Opening balance | 4 361 188 | 3 218 881 |
| Current year output VAT | (93 136) | (57 543) |
| Current year input VAT | 7 427 227 | 4 418 731 |
| Amount paid - current year | (9 446 445) | (3 218 881) |
| Amount due by SARS - V A T Audit | | |
| Amount due by SARS - included in debtors | <u>2 248 834</u> | <u>4 361 188</u> |
| All VAT returns have been submitted by the due date. | | |
| 22.4 PAYE, UIF and Skills levy | | |
| Opening balance | | |
| Current year payroll deductions and Council UIF/Skills contributions | 2 448 403 | 2 017 530 |
| Amount paid - current year | 2 448 403 | 2 017 530 |
| Amount paid - previous years | | |
| Balance unpaid (included in creditors) | <u>0</u> | <u>0</u> |
| 22.5 Pension; UIF and medical aid deductions | | |
| Opening balance | | |
| Current year payroll deductions and Council contributions | 1 757 749 | 1 411 837 |
| Amount paid - current year | 1 757 749 | 1 411 837 |
| Amount paid - previous years | | |
| Balance unpaid (included in creditors) | <u>0</u> | <u>0</u> |

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

22.6 Councillors arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at :

| 30 June 2011 | Total | Outstanding less than 90 days | Outstanding more than 90 days |
|--------------|-------|-------------------------------------|-------------------------------------|
|--------------|-------|-------------------------------------|-------------------------------------|

| 30 June 2012 | Total | Outstanding less than 90 days | Outstanding more than 90 days |
|--------------|-------|-------------------------------------|-------------------------------------|
|--------------|-------|-------------------------------------|-------------------------------------|

| | | <u>2012</u> | <u>2011</u> |
|--|--|-------------|-------------|
| 23 Capital Commitments | | | |
| Commitments in respect of capital expenditure: | | | |
| - approved and contracted for | | | |
| Infrastructure | | | |
| Community | | | |
| Heritage | | | |
| Other | | | |
| Housing Development Fund | | | |
| Investment | | | |
| properties | | | |
| - approved but not yet contracted for | | | |
| Infrastructure | | 26 665 000 | 21 981 000 |
| Community | | | |
| Heritage | | | |
| Other | | 4 400 000 | 4 600 000 |
| Housing Development Fund | | | |
| Investment | | | |
| properties | | | |
| This expenditure will be financed from | | | |
| - capital replacement reserve | | | |
| - government grants | | 26 665 000 | 21 981 000 |
| - own resources | | 4 400 000 | 4 600 000 |
| - | | | |

24 RETIREMENT BENEFIT INFORMATION

Certain Councillors and Certain employees belong to defined benefit retirement funds administered by the Natal Joint Municipal Pension Fund. These funds are subject to a triennial actuarial valuation. The last valuation was performed on 1 July 2009. The Actuary advised that the fund is 96% funded and at date no actual action is required to rectify the situation

MSINGA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2012

24.1 SUPERANNUATION FUND

The Actuary advised that the financial position has deteriorated from previous statutory valuation. The Committee felt that the investment markets were too volatile and the future of the Fund too uncertain (following a discussion of a possible merger with the Retirement Fund) to cease the surcharge at that point. The surcharge of 7% of pensionable salaries has therefore been applied.

24.2 RETIREMENT FUND

The actuary has advised the following

24.2.1. The result of the latest valuation showed a deficit in the fund.

24.2.2. The employers and members are paying a surcharge of 17% of pensionable salaries, which was expected to fund the deficit over a five year period

24.3 Provident Fund

The actuary is satisfied that the assets of the Fund are appropriate given the liabilities

25 Contingent Liabilities

In accordance with an agreement reached in the SALGBC council must make provision for pensioners medical contribution.

The liability in this regard can not be calculated at this stage.

26 Unauthorised Expenditure

27 Irregular Expenditure

Irregular expenditure of R 1 161 988 in the current financial year and R8 795 000 in the prior year was incurred as a result of contravention of the Municipality's procurement policy.

This expenditure was for road maintenance and is included in the maintenance as per statement of financial performance.

**MSINGA LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
for the year ended 30 June 2012**

**APPENDIX A
MSINGA MUNICIPALITY : SCHEDULE OF EXTERNAL LOANS AT 30 JUNE 2012**

| EXTERNAL LOANS | Loan Number | Redeemable | Balance at 2011/06/30 | Received during the year | Redeemed or written off during the year | Balance at 2012/06/30 | Carrying value of property plant & equip. |
|-----------------------|------------------------|-------------------|----------------------------------|---|--|----------------------------------|--|
| | | | R | R | R | R | R |
| TOTAL | | | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | |

MSINGA LOCAL MUNICIPALITY
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APPENDIX B

MSINGA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2012

| | Cost/ Revaluation | | | | Accumulated Depreciation | | | | Carrying | Budget | |
|-------------------------------|--------------------|------------|-----------------------|-----------|--------------------------|--------------------|-----------|-----------|--------------------|-----------|-------------------|
| | Opening Balance | Additions | Under Construction | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value | Additions 2012 |
| Land and Buildings | | | | | | | | | | | |
| Land | | | | | | | | | | | |
| Buildings | 17 257 983 | 141 379 | | | 17 399 362 | 2 577 022 | 607 473 | | 3 184 495 | 14 214867 | |
| | 17 257 983 | 141 379 | 0 | 0 | 17 399 362 | 2 577 022 | 607 473 | 0 | 3 184 495 | 14 214867 | 0 |
| Infrastructure | | | | | | | | | | | |
| Roads | 60 219 668 | 22 348 542 | | | 82 568 210 | 13 111043 | 6 136 911 | | 19 247954 | 63 320256 | |
| | 60 219 668 | 22 348 542 | 0 | 0 | 82 568 210 | 13 111043 | 6 136 911 | 0 | 19 247954 | 63 320256 | 0 |
| Community Assets | | | | | | | | | | | |
| Sports facilities | 2 248 579 | 1 381 705 | | | 3 630 284 | 118 918 | 240 022 | | 358 940 | 3 271 344 | |
| | 2 248 579 | 1 381 705 | 0 | 0 | 3 630 284 | 118 918 | 240 022 | 0 | 358 940 | 3 271 344 | |
| Leased Assets | | | | | | | | | | | |
| Infrastructure | | | | | | | | | | | |
| Other Assets | | | | | | | | | | | |
| Refuse disposal site | 1 531 890 | | | | 1 531 890 | 1 531 890 | | | 1 531 890 | 0 | |
| Taxi rank | 948 004 | | | | 948 004 | 948 004 | | | 948 004 | 0 | |
| Fencing | 584 030 | | | | 584 030 | 584 030 | | | 584 030 | 0 | |
| Air conditioners | 134 252 | | | | 134 252 | 134 252 | | | 134 252 | 0 | |
| Office and computer equipment | 2 393 948 | 109 464 | | | 2 503 412 | 1 908 642 | 165 849 | | 2 074 491 | 428 921 | |
| Furniture and fittings | 998 155 | 342 804 | | | 1 340 959 | 535 336 | 100 043 | | 635 379 | 705 580 | |
| Machinery and equipment | 167 230 | | | | 167 230 | 167 230 | | | 167 230 | 0 | |
| Cellphones & radios | 2 151 | | | | 2 151 | 2 151 | | | 2 151 | 0 | |
| Motor vehicles | 8 994 518 | 1 379 205 | | | 10 373 723 | 5 087 572 | 979 270 | | 6 066 842 | 4 306 881 | |
| | 15 754 178 | 1 831 473 | 0 | 0 | 17 585 651 | 10 899107 | 1 245 162 | 0 | 12 144269 | 5 441 382 | 0 |
| Total | 95 480 408 | 25 703 099 | 0 | 0 | 121 183507 | 26 706090 | 8 229 568 | 0 | 34 935658 | 86 247849 | 0 |

**MSINGA LOCAL MUNICIPALITY
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APPENDIX C

MSINGA LOCAL MUNICIPALITY : SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AT 30 JUNE 2012

| | Opening Balance | Additions | Cost/ Revaluation Under Construction | Disposals | Closing Balance | Opening Balance | Accumulated Depreciation Additions | Disposals | Closing Balance | Carrying Value |
|-----------------------------|--------------------|------------|--|-----------|--------------------|--------------------|---------------------------------------|-----------|--------------------|-------------------|
| Executive and Council | 4 151 227 | 1 784 345 | | | 5 935 572 | 2 474 914 | 416 601 | | 2 891 515 | 3 044 057 |
| Finance and Admin | 17 380 729 | 163 475 | | | 17 544 204 | 3 362 177 | 631 399 | | 3 993 576 | 13 550 628 |
| Planning and Development | | | | | | 0 | | | 0 | |
| Health | | | | | | 0 | | | 0 | |
| Community & Social Services | 3 141 331 | | | | 3 141 331 | 1 394 900 | 150 493 | | 1 545 393 | 1 595 938 |
| Housing | | | | | | 0 | | | 0 | |
| Public Safety | 25 720 | | | | 25 720 | 13 017 | 1 602 | | 14 619 | 11 101 |
| Sport and Recreation | | | | | | 0 | | | 0 | |
| Environmental Protection | | | | | | 0 | | | 0 | |
| Waste Management | 2 320 185 | | | | 2 320 185 | 2 320 184 | | | 2 320 184 | 1 |
| Road Transport | 68 423 033 | 23 755 279 | | | 92 178 312 | 17 108 280 | 7 026 690 | | 24 134 970 | 68 043 342 |
| Other | 38 183 | | | | 38 183 | 32 618 | 2 781 | | 35 399 | 2 784 |
| | 0 | | | | 0 | | | | | |
| | 95 480 408 | 25 703 099 | 0 | - | 121 183 507 | 26 706 090 | 8 229 566 | - | 34 935 656 | 86 247 851 |

**MSINGA LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
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APPENDIX D

**MSINGA LOCAL MUNICIPALITY : SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2012**

| 2011 | 2011 | 2011 | | 2012 | 2012 | 2012 |
|-----------------------|----------------------------|----------------------------|-----------------------------|-----------------------|----------------------------|----------------------------|
| Actual Income R | Actual Expenditure R | Surplus/ (Deficit) R | | Actual Income R | Actual Expenditure R | Surplus/ (Deficit) R |
| 89 536 943 | 39 923 139 | 49 613 804 | Executive and Council | 98 892 608 | 38 173 627 | 60 718 981 |
| 251 092 | 8 739 361 | (8 488 269) | Finance and Admin | 220 655 | 7 161 595 | (6 940 940) |
| | 4 089 062 | (4 089 062) | Planning and Development | | 3 510 161 | (3 510 161) |
| | 276 935 | (276 935) | Health | | 278 840 | (278 840) |
| 96 988 | 2 202 178 | (2 105 190) | Community & Social Services | 67 550 | 2 805 777 | (2 738 227) |
| | 1 320 131 | (1 320 131) | Public Safety | | 1 637 674 | (1 637 674) |
| 20 940 | 534 153 | (513 213) | Waste Management | 20 940 | 638 333 | (617 393) |
| | 11 005 131 | (11 005 131) | Road Transport | | 17 922 218 | (17 922 218) |
| | 12 846 | (12 846) | Other | | 494 403 | (494 403) |
| | | | | | | 0 |
| <u>89 905 963</u> | <u>68 102 936</u> | <u>21 803 027</u> | Sub - total | <u>99 201 753</u> | <u>72 622 628</u> | <u>26 579 125</u> |

MSINGA LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
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APPENDIX E (1)

MSINGA LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2012

| REVENUE | 2012 Actual R | 2012 Budget R | 2012 Variance R | 2012 Variance % |
|---|---------------------|---------------------|-----------------------|-----------------------|
| Property rates | 441 045 | 500 000 | (58 955) | -13% |
| Property rates - penalties imposed and collection charges | | | 0 | |
| Service charges | 20 940 | 17 500 | 3 440 | 16% |
| Rental of facilities and equipment | 266 534 | 33 000 | 233 534 | 88% |
| Interest earned - external investments | 3 594 158 | 3 650 000 | (55 842) | -2% |
| Government grants and subsidies | 94 479 922 | 94 979 000 | (499 078) | -1% |
| Other income | 399 153 | 122 500 | 276 653 | |
| Total Revenue | 99 201 752 | 99 302 000 | (100 248) | |
| EXPENDITURE | | | | |
| Employee related costs | 12 590 937 | 13 578 866 | (987 929) | -8% |
| Remuneration of Councillors | 7 525 425 | 7 450 547 | 74 878 | 1% |
| Bad debts | 467 605 | 450 000 | 17 605 | 4% |
| Collection costs | | | 0 | |
| Depreciation | 8 229 569 | 7 909 258 | 320 311 | 4% |
| Repairs and maintenance | 8 426 157 | 6 255 000 | 2 171 157 | 26% |
| Interest paid | | | 0 | |
| Bulk purchases | | | 0 | |
| Contracted services | 1 393 758 | 830 934 | 562 824 | 40% |
| Grants and subsidies paid | 4 980 529 | 5 721 269 | (740 740) | -15% |
| General expenses | 29 008 647 | 30 005 859 | (997 212) | -3% |
| Loss on disposal of property, plant and equipment | | | | |
| Total Expenditure | 72 622 627 | 72 201 733 | 420 894 | |
| Surplus (Deficit) for the year | 26 579 125 | 27 100 267 | (521 142) | -2% |

**MSINGA LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
for the year ended 30 June 2012**

APPENDIX E (2)

MSINGA LOCAL MUNICIPALITY : ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 Actual | 2012 Under Construction | 2012 Total Additions | 2012 Budget | 2012 Variance | 2012 Variance | Explanation of significant variances |
|--------------------------|----------------|-------------------------------|----------------------------|----------------|------------------|------------------|--------------------------------------|
| | R | R | R | R | R | % | |
| Land and Buildings | | | | | | | |
| Land | | | | | | | |
| Buildings | 141 379 | | 141 379 | 2 100 000 | -1 958 621 | 100 | |
| | 141 379 | | 141 379 | 2 100 000 | -1 958 621 | | |
| Infrastructure | | | | | | | |
| Roads | 22 348 542 | | 22 348 542 | 21 981 000 | 367 542 | 2 | |
| Electricity reticulation | | | 0 | | 0 | | |
| | 22 348 542 | 0 | 22 348 542 | 21 981 000 | 367 542 | | |
| Community Assets | | | | | | | |
| Sports fields | 1 381 705 | | 1 381 705 | 0 | 1 381 705 | | |
| | 1 381 705 | 0 | 1 381 705 | 0 | 1 381 705 | | |
| Other Assets | | | | | | | |
| Refuse transfer station | | | | | | | |
| Office equipment | 109 464 | | 109 464 | 500 000 | -390 536 | (78) | |
| Furniture and fittings | 342 804 | | 342 804 | 500 000 | -157 196 | (31) | |
| Bins and containers | | | 0 | | 0 | | |
| Motor vehicles | 1 379 205 | | 1 379 205 | 1 500 000 | -120 795 | (8) | |
| Computer equipment | | | 0 | | 0 | | |
| | 1 831 473 | | 1 831 473 | 2 500 000 | -668 527 | | |
| Total | 25 703 099 | 0 | 25 703 099 | 26 581 000 | -877 901 | (3) | |

MSINGA LOCAL MUNICIPALITY
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DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA , ACT 56 OF 2003

| Description | Name of organ of State | Unspent balance at 1 July 2011 | Received 2011/2012 | Expenditure 2011/2012 | Transfer 2011/2012 | Unspent balance at 30 June 2012 | Grants delayed/ withheld | Reason for delaying/ withholding funds |
|---------------------------------------|------------------------|-----------------------------------|-----------------------|--------------------------|-----------------------|------------------------------------|--------------------------------|---|
| | | R | R | R | R | R | R | |
| Grants - general | Unspecified | 322 179 | 1 200 000 | | (344 075) | 1 178 104 | | |
| Grant - construction of shelters | District Council | 554 034 | | | (310 265) | 243 769 | | |
| Int Dev I - Structure Grant | Provincial Government | 100 936 | | | | 100 936 | | |
| MIG-Roads | | 2 473 341 | 21 981 000 | 22 160 973 | | 2 293 368 | | |
| Transition grant | | 2 518 464 | | | | 2 518 464 | | |
| Tourism grant | | 897 670 | 354 300 | 29 811 | | 1 222 159 | | |
| Municipal assistance programme | | 0 | | | | 0 | | |
| Municipal support grant | | 2 038 904 | | 391 877 | | 1 647 027 | | |
| Grants - general | | 3 450 000 | | | | 3 450 000 | | |
| Grant -Integrated development plan | | 239 050 | | 21930 | | 217 120 | | |
| Spatial dev Framework | | 100 000 | | | | 100 000 | | |
| Finance Management grant | | 1 000 | 1 450 000 | 1 451 000 | | 0 | | |
| Implementation of M F M Act | | 145 000 | | | | 145 000 | | |
| Equitable share | | 0 | | | | 0 | | |
| Inter departmental monitoring grant | | 100 000 | | | | 100 000 | | |
| Grant - LUMS | | 237 223 | | | | 237 223 | | |
| Grant - Project Consolidate | | 1 847 347 | | | | 1 847 347 | | |
| Grant - community development workers | | 128 890 | | | | 128 890 | | |
| MSIG grant | | 0 | 790 000 | 790 000 | | 0 | | |
| Housing grant - Pomeroy project | | 108 677 | | | | 108 677 | | |
| Grant - LED capacity building | | 425 000 | | 178 396 | | 246 604 | | |

MSINGA LOCAL MUNICIPALITY
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for the year ended 30 June 2012

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA , ACT 56 OF 2003 (continue)

| Description | Name of organ of State | Unspent balance | Received | Expenditure | Transfer | Unspent balance | Grants delayed/ | Reason for |
|------------------------------------|------------------------|-----------------|------------|-------------|-----------|-----------------|-----------------|-------------|
| | | at 1 July 2011 | 2011/2012 | 2011/2012 | 2011/2012 | at 30 June 2012 | withheld | delaying/ |
| | | R | R | R | R | R | R | withholding |
| Lottery- Pomeroy sport field | | (0) | | | | (0) | | funds |
| Internal control & Audit committee | | 150 000 | | 128 198 | | 21 802 | | |
| Housing grant - Kwalatha project | | (23 820) | | | | (23 820) | | |
| Resol phase 1 | | 145 000 | | | | 145 000 | | |
| Info Investment programme | | 200 000 | | | | 200 000 | | |
| Sports fields | | 436 464 | 1 725 000 | 1 569 272 | | 592 192 | | |
| E - Learning | | 209 045 | | | | 209 045 | | |
| Small town rehab | | 101 028 | | 755 368 | 654 340 | 0 | | |
| Electrification programme | | 9 620 811 | 7 000 000 | 7 992 180 | | 8 628 631 | | |
| Intern corporate | | | 36 000 | | | 36 000 | | |
| Thusong Centres | | | 1 167 000 | | | 1 167 000 | | |
| Sweet potato project | | | 1 500 000 | | | 1 500 000 | | |
| | | 26 526 243 | 37 203 300 | 35 469 005 | 0 | 28 260 538 | | |